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JAPANESE HOUSING: THE INTERNATIONAL DIMENSION

Summary

The distinctive architecture and other characteristics of Japanese houses have fascinated Westerners for centuries. Today Washington has a different kind of interest. Japanese demand for housing has both macroeconomic and microeconomic dimensions that in the view of some American policymakers should be changed to reduce the U.S.-Japan trade imbalance. While progress was made in 1987 and 1988 on the macroeconomic dimension as housing starts boomed, discussions are just beginning between the two countries on microeconomic questions, such as imports of wood products and land-use policies that, among other effects, may be related to the demand for housing in Japan. Some American policymakers appear to have unrealistic notions as to how Japanese housing demand is likely to change and how any change that does occur would affect the bilateral trade imbalance. However, they may find many Japanese home owners and renters nodding in agreement should they discuss the general deficiency of Japanese housing in the context of the affluence of Japanese life.

Japanese Housing in International Perspective

Comparison of Japanese housing with that in other industrialized countries is hardly a straightforward exercise. The Japanese obviously use their houses differently. Those with only casual information about Japan have heard that Japanese sleep on the floor, take their shoes off when entering their house and walk on straw mats. Some of these habits are associated with differences in the housing itself. Many rooms, for example, can serve multiple purposes, meaning fewer are required. The use of materials is different, too. Wood plays a far more important aesthetic role in Japanese housing than in most American dwellings, and the generally used post-and-beam construction technique differs from the 2x4 method favored in the United States.

In recent years many Japanese homes have taken on Western trappings, such as beds and carpeting. Today's Japanese families -- like their American counterparts -- may fill their home with the latest products of Japan's famous electronics firms. However, these superficial similarities with the United States mask important physical differences in Japanese housing, not only compared to this country but to other industrialized countries (see Table 1).

Table 1: Housing Conditions in Japan and Other Countries

	Japan	United States	United Kingdom	France	West Germany
Dwellings per 1,000 people	323	413	399	451	447
Floor area per new dwelling unit (square feet)	909	1,451	n.a.	920	1,010
Floor area per capita (square feet)	298	600	n.a.	417	451
New dwelling units per 1,000 people	11.6	6.8	3.8	6.3	4.1
Percent of dwellings with flush toilets	65.8%	97.8%	97.3%	87.3%	97.1%
Percent of family members with own room	34.6%	69.7%	75.7%	68.8%	48.2%
Percent of households with second home	2.2%	16.6%	2.7%	9.0%	4.9%
Average new home price as multiple of average household income	5.6	3.0	4.0	n.a.	4.8

Notes: For first four rows: Japan's figures are for 1983, except floor space per dwelling, which is for 1984; other countries' figures are for 1984.

For fifth row: Japan, 1988; United States, 1980; United Kingdom, 1981; France, 1978; and West Germany, 1978. The U.K. figure is for Wales and England only.

For sixth and seventh rows: All countries, 1980.

For eighth row: Japan, 1987; United States, 1985; United Kingdom, 1986; and West Germany, 1984. Japanese figures refer to upscale apartments and developer-built homes in the Tokyo metropolitan area.

Sources: Ministry of Construction, Management and Coordination Agency, Organization for Economic Cooperation and Development and United Nations.

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The table shows that Japanese housing, although much of it relatively new, is generally much smaller and less likely to have characteristics that Americans take for granted. For example, even though the percentage of homes with flush toilets doubled from 31.4 percent in 1973 to 65.8 percent in 1988, the figure is still far lower than in other industrialized countries. In some primarily rural prefectures in Japan, it is still under 30 percent. Even 9.7 percent of the homes built in Japan between January 1986 and October 1988 do not have this feature.

Similarly, people in other industrial countries take central heating and either a bathtub or a shower for granted. A significant number of Japanese homes do without all three. In 1988 9 percent of Japanese dwellings had no bathtub, although this figure had improved from 26.7 percent in 1973. The alternative for many remains the public bath, or sento. While sento are slowly disappearing from the Japanese landscape, a walk of several blocks to take a bath remains a daily ritual for thousands, even in Tokyo. Similarly, 81.1 percent of Japanese households in 1987 had kerosene heaters. While similar products, often made in Japan, have found their way into many American homes in recent years as a supplemental source of heat, in Japanese homes they often are a principal -- or even the only -- way of keeping a dwelling warm.

Finally, as the last line of Table 1 shows, Japanese housing is very expensive relative to annual income. The figure refers to upscale apartments and developer-built houses in the metropolitan Tokyo area, while the figures for America and elsewhere are nationwide. As such, the Japanese figure probably is biased upward, even though it omits owner-built housing, the most expensive type of housing in Japan and elsewhere. In addition, low nominal interest rates and probable future income gains both make Japanese homes more affordable than the figure indicates. Despite all these qualifiers, considerable anecdotal evidence suggests that the figures reflect significant differences. More than one Japanese national posted to America has purchased a luxury home in an expensive American city, only to find he cannot afford to buy a decent home when he returns to Japan.

Of course, Americans have to be careful about interpreting these figures. Different relative prices between the two countries could lead homeowners and renters to make different trade-offs between space, newness, and proximity to work, among other factors. Despite reports of three-room apartments renting for over $6,000 a month in Tokyo (against about $1,700 in New York City), housing in Japan's largest city can be found at an affordable price. Some Tokyo apartment units in close-in areas and near public transportation, for example, rented in early 1989 for the equivalent of a few hundred dollars a month. In Washington, D.C. or New York City, apartments in equally safe and convenient neighborhoods would be far more expensive, both in dollars and relative to average monthly income.

Similarly, while Japanese houses may strike some Americans as primitive, the average house in Japan is newer. The median age for U.S. dwellings in 1985 was 23 years, with about a quarter of the units built before World War II and about 10 percent less than five years old. In Japan the median age in 1988 was about 15 years; only 7 percent of the units were built before World War II and 9 percent were less than two years old. As further evidence of relative affluence, 98.3 percent of Japanese households had a refrigerator in 1987 and about 60 percent had air conditioning of some kind, both figures that approximate U.S. levels.

In an important sense Japanese and U.S. patterns of housing broadly correspond to natural endowments. Japan is one of the most crowded countries on earth, with 4.4 times the population of California crammed into an area roughly equal in size. Land is naturally expensive, given the competing uses. This suggests that a family with an income of a given size freely may choose to live in a smaller home than it would if land were more plentiful, compensating for space with other kinds of expenditures, one of which might be to replace the existing house more frequently.

Home financing also plays dramatically different roles in the Japanese and the American economies. In Japan special tax treatment for mortgages traditionally has been rather modest. However, the government-run Housing Loan Corp. provides roughly a quarter of new housing loans on favorable terms. In the United States, by contrast, the government has bestowed significant tax advantages on home ownership as well as creating several special government-related financial institutions that generally reinforce the efforts of private-sector mortgage providers.

Partly for these reasons, mortgages make up a larger proportion of the loan portfolios of commercial banks in the United States than in Japan, as shown in Table 2. However, banks in this country have approximately the same share of the home mortgage market as their counterparts in Japan. This suggests that home mortgages are much more important assets of the financial system as a whole in the United States than they are in Japan. Conversely, savings are less important in financing homes here than in Japan.

Table 2: Role of Mortgages in American and Japanese Commercial Banks

	United States		Japan	
End of Year	Billions of Dollars	Percent of Loans Outstanding	Billions of Yen	Percent of Loans Outstanding
1980	$266.3	28.5%	Y12,130	9.0%
1981	286.8	29.2	13,083	8.8
1982	304.1	29.0	13,767	8.4
1983	336.2	29.5	14,057	7.8
1984	375.5	28.3	14,433	7.1
1985	423.8	28.9	15,277	6.9
1986	486.3	30.6	17,257	7.1
1987	582.3	34.2	21,228	7.9

Note: The yearend 1980 Japanese figure equaled $52.7 billion at 1980's closing excharge rate of Y203=$1.00, while the comparable 1987 figure equaled $171.9 billion at that year's ending exchange rate of Y123.5=$1.00.

Source: Bank of Japan

Recent Developments in Japanese Housing

Several factors in the 1980s have affected housing demand in Japan. As incomes have risen, households have desired better homes. In addition,

relatively low housing starts in the early 1980s may have created a backlog of unmet housing needs that could not be postponed indefinitely. Lower interest rates, especially since 1987, have been another positive influence.

Surging land prices in 1987 and 1988 were a particularly dramatic factor. While the increase was most spectacular in the Tokyo area, it was a nationwide phenomenon. As Table 3 shows, land prices have risen consistently faster than overall consumer prices, with land prices in Tokyo and other large cities generally rising relative to those elsewhere. In recent years the rate of increase in residential land prices has accelerated while consumer prices have shown greater stability. Despite the run-up residential land prices have risen less than those for other kinds of economic activity. For example, commercial land prices in the largest cities more than doubled between March 1986 and September 1988, while residential land in the same cities was up 64 percent.

Table 3: Japanese Residential Land Prices

(1980=100)

	All Japan		Six Largest Cities		Consumer
March 31	Index	Change	Index	Change	Price Change*
1976	75.7	--	66.9	--	--
1977	78.7	4.0%	69.9	4.5%	--
1978	82.5	4.8	73.6	5.3	4.3%
1979	88.7	7.5	82.9	12.6	3.7
1980	100.0	12.7	100.0	20.6	7.8
1981	112.2	12.2	110.6	10.6	4.8
1982	122.4	9.1	117.9	6.6	2.8
1983	129.5	5.8	122.5	3.9	1.9
1984	134.1	3.6	126.8	3.5	2.3
1985	137.7	2.7	133.8	5.5	2.0
1986	140.7	2.2	146.7	9.6	0.6
1987	156.1	10.9	186.3	27.0	0.1
1988	159.3	2.0	229.4	23.1	0.7
Addendum:					
September 30, 1988	162.7	4.2	240.0	11.1	0.6

*1985 base year; year-to-year rates of change.

Sources: For land prices, Japan Real Estate Institute. For consumer prices, Management and Coordination Agency.

After languishing in the early 1980s housing starts revived in 1986 and took off in 1987 and 1988, with rental housing especially strong (see Table 4). Has the housing boom caused the run-up in land prices? The pattern of increases suggests this generally was not the case. Since residential land costs were up less than other land costs, the rise may have echoed those other increases. This argument also suggests that housing starts did not lead land prices up but rather increased despite the higher costs of land.

Table 4: Housing Starts in Japan

	Total Units (1,000)	Distribution			Average Floor Space (square feet)
		Owner-Occupied Units	Rental Units	Other*	
1960	424	55.0%	34.4%	10.6%	635.5
1965	843	44.7	43.7	11.5	633.3
1970	1485	41.5	41.5	17.0	732.3
1975	1,356	51.9	27.7	20.4	891.4
1980	1,269	47.4	25.1	27.3	1,009.7
1981	1,152	48.5	26.4	25.2	1,006.5
1982	1,146	51.0	27.5	21.5	1,009.7
1983	1,337	42.1	34.6	23.1	940.9
1984	1,187	39.6	39.1	21.3	907.5
1985	1,236	37.6	42.6	19.7	896.8
1986	1,365	34.9	47.3	17.7	874.2
1987	1,674	32.6	51.3	16.1	851.6
1988	1,685	30.2	51.0	18.8	859.1

*Developer-built and employer-supplied.

Source: Ministry of Construction

A run-up in land prices signals that new potential uses -- including higher-density housing or commercial use -- have developed. Certainly, given that Japan's land area cannot be increased appreciably, relatively low-density housing appears on the way to becoming less common. This, in turn, suggests narrower choices and possibly less satisfying housing for future home buyers unless new technology comes to the rescue by permitting higher buildings or alternative land-use patterns promote decentralized housing without additional cost or inconvenience.

On the basis of the data shown in Table 4, some experts have made much of the fact that the average new dwelling size has declined in recent years (the last column). The figures do not mean that Japanese dwellings are getting smaller on average. Newly constructed housing continues to average more space than the existing housing stock, with the consequence that broad measures of average dwelling size continue to rise (see Table 5). The reduction in the new housing figures can be accounted for largely by the increase in the proportion of rental housing. As in the United States, owner-occupied housing tends to be detached, single-family homes, while rental units overwhelmingly consist of apartments.

Related to the surge in rental unit construction, home ownership dropped to 61.1 percent in 1988 from 62.4 percent in 1983, the date of the previous Housing Survey. Generational comparisons reveal a similar trend. Those who were younger than 34 in 1988 are less likely to own a home than their parents were at the same age. For example, among those who are now 50 to 54 years old, 27.9 percent owned their dwelling when they were between the ages of 25 and 29. But among those now aged 25-29, only 17.8 percent have acquired their own home. (In the United States the figure for people 25 to 29 years old was 36.2 percent in 1988.) But the reverse pattern applies to Japanese now aged 35-39: they are more likely to own their home than their parents were at the same age.

Table 5: Characteristics of Japan's Housing Stock

	Rooms per Dwelling	Square Feet per Dwelling
1963	3.52	634.1
1968	3.63	672.3
1973	4.05	754.6
1978	4.44	811.3
1983	4.68	877.0
1988	4.81	920.5

Note: Includes only structures used exclusively for housing.

Source: Management and Coordination Agency

In the face of these changes in housing size and ownership patterns, Ministry of Construction surveys from 1973 to the most recent in 1983 show a continuing and consistent decline in contentment levels among home owners and renters. The results reverse those of surveys taken in the late 1960s and early 1970s, which showed these groups generally becoming increasingly satisfied with their housing.

The data obviously present a confusing picture. Japanese housing starts have increased in the late 1980s, and Japanese housing by most, but not all, measures is getting better. But dissatisfaction over housing is rising. And younger Japanese are less likely to own a home than were their parents at a comparable age. One summary measure captures some of this complexity. Table 6 shows the housing stock adjusted for price changes as a fraction of real gross national product. Increases in this measure indicate that housing is improving faster than real income; decreases the reverse. The data reveal an unbroken pattern of decline that persisted even into the beginning of the housing boom in 1987. These figures suggest that the Japanese household's unhappiness with its residence should come as no surprise: Japanese dwellings look increasingly inadequate compared to the other goods and services available to Japanese households. Foreign observers have discovered the same discrepancy; as a result, Japan's housing situation has become a subject of international discussion in the second half of the 1980s.

Table 6: Housing Stock and Real GNP

(at 1980 prices)

End of Year	Real Housing Stock (billions of yen)	Rate of Change	Real Housing Stock/ Real GNP
1981	¥138,134.5	--	54.9%
1982	142,065.3	2.8%	54.7
1983	144,824.8	1.9	53.5
1984	147,023.4	1.5	51.7
1985	149,264.5	1.5	50.5
1986	152,318.2	2.0	50.0
1987	158,272.8	3.9	48.9

Source: Economic Planning Agency

Housing and International Economic Relations

Trade friction between the United States and Japan is nothing new, with Japan usually on the receiving end of the criticism. Washington's trade stance toward Tokyo has shifted back and forth during the past decade between macroeconomic and microeconomic approaches, depending partly on political fashion in the nation's capital. Remarkably, Japanese housing can be made to fit both.

The Macroeconomic Argument - The overall theme of this approach is that American policymakers would like the Japanese economy to serve as a locomotive of worldwide economic growth, which, in their view, would simultaneously help to alleviate trade imbalances. Specifically, top Washington officals sometimes have implied that Japanese households consume too little. They point to the high rates of personal savings in Japan, which, as a percentage of disposable income, run as much as four times higher than U.S. rates. As a consequence, according to this argument, Japanese aggregate demand is too low, resulting in low imports, especially compared to exports, which have grown rapidly in much of the postwar period.

To remedy this problem, Japanese housing would appear to be a good place to start the process of stimulating demand. Housing is already a large part of the economy. Even a modest push would have a big macroeconomic impact. In addition, as homes are built, consumer demand might be stimulated for furniture, home appliances and other products. If all these hoped-for events unfold, the household sector's surplus savings now available for financing both corporate plant and equipment spending and foreign investment would shrink, setting in motion a sequence of higher interest rates in Japan, a stronger yen and a smaller current account surplus.

The macroeconomic approach characterized U.S. efforts between 1985 and 1987 to encourage Japanese policymakers to stimulate the economy as part of a push to rectify international imbalances that also included a substantial appreciation of the yen. Following policy decisions in Tokyo in 1987 the government began to implement a series of measures to stimulate domestic demand.

The most important measures for housing were reductions in interest rates, accomplished by means of a relaxed monetary policy supplemented by drops in some key individually set mortgage rates. Commercial banks, for example, lowered their rate for 20-year, fixed-rate mortgages, which had stood at 7.68 percent at the beginning of 1987, to 6.66 percent by yearend. Since then the rate has changed only slightly, standing at 6.6 percent in mid-1989. The government-run Housing Loan Corp. also played a pivotal role, dropping its rates and increasing the volume of loans dramatically. HLC lowered its most widely quoted rate in March 1987 from 5.25 percent to 4.7 percent and again in June of that year to 4.2 percent. Even a subsequent adjustment to 4.5 percent in December 1987 left the mortgage rate a percentage point lower than the level that had prevailed without change from July 1979 to January 1986. At the same time, HLC -- which relies on governmental sources, especially the Trust Fund Bureau, for its funding -- rapidly increased its level of lending, hiking the value of new loans by 37.1 percent in 1987 and another 24.8 percent in 1988. (The number of loans increased by 16.4 percent and 6.4 percent, respectively.)

These policies unquestionably were a factor in the rapid growth in housing demand that occurred in 1987 and 1988. Data for fiscal year 1987, which

ended March 31, 1988, reveal the outlines of the favorable scenario hoped for by Japan watchers in Washington. The household savings rate dropped from 16.3 percent to 15 percent of household disposable income as consumer spending rose. Even more significant, the amount of household savings dropped 4.6 percent even though household disposable income rose 3.2 percent. Moreover, savings within the household sector going for capital formation -- the overwhelming proportion of which is purchases of new housing -- soared 21 percent. As a result, the surplus savings available for financing capital formation elsewhere in the Japanese economy and abroad dropped 15.4 percent. Together with the growth of the Japanese economy, these factors caused excess household savings to drop from 9.6 percent to 7.7 percent of nominal GNP. Partly in consequence, the excess demand of the foreign sector dropped from 4.5 percent to 3.3 percent of GNP.

While comparable FY 1988 data are not available, data for calendar 1988 on financial flows, as opposed to the GNP data used above, suggest that the surplus in the household sector continued to shrink, although perhaps at a slower rate than in FY 1987 (see JEI Report No. 27B, July 14, 1989). What this means is that rising housing starts may be connected with the reduction in Japan's current account surplus.

Another way to make this argument is to look at the role of housing in the GNP statistics. As Table 7 shows, private residential investment, despite its relatively small size, in 1987 contributed almost 25 percent of the economy's overall growth. Its contribution in 1988, while smaller, was still substantial. Like the sectoral balance figures presented earlier, these numbers suggest that housing has played a major role in stimulating domestic demand and has helped to replace relatively sluggish export demand as an engine of Japanese economic growth.

Table 7: Housing's Contribution to Real GNP Growth

	Housing as Percent of Real GNP	Real GNP Growth Rate	Contribution of Housing (percentage points)
1981	6.0%	3.7%	-0.2
1982	5.8	3.1	-0.0
1983	5.3	3.2	-0.4
1984	4.9	5.1	-0.1
1985	4.8	4.9	0.1
1986	5.1	2.5	0.4
1987	5.9	4.5	1.1
1988	6.4	5.7	0.8

Note: Figures do not include public housing investment, which averages about 0.3 percent of real GNP and showed little growth in the years covered.

Source: Economic Planning Agency

In summary, at least in 1987 and 1988 Tokyo took macroeconomic actions broadly consistent with what Washington wanted. Of course, a full-fledged macroeconomic assault on the bilateral trade imbalances also would require corresponding actions by the U.S. government, of which a meaningful reduction in the federal budget deficit would be the most important.

The Microeconomic Approach - Obviously, the Japanese current account surplus and the U.S. current account deficit both remain large. At the moment Washington appears to have grown frustrated with the macroeconomic approach. The alternative, the microeconomic approach, focuses on chipping away at barriers facing individual goods and services. Although not often admitted by its practitioners, the objective is less to change the trade imbalance than to alter its structure since current account surpluses and deficits basically are determined by macroeconomic forces.

The microeconomic approach often has prevailed in recent years. The MOSS (market-oriented, sector-selective) talks that took place in 1985 and the 1988 Omnibus Trade and Competitiveness Act are evidence of the new thinking. Especially important in this regard is the trade act's Super 301 provision, which requires the administration to identify priority foreign barriers to U.S. exports and to negotiate the removal of these restraints.

In late May the White House announced the first list of Super 301 countries and products. Japan was one of three countries cited and was named for three products: supercomputers, satellites and wood products (see JEI Report No. 22B, June 9, 1989).

The selection of wood products -- which took some analysts by surprise because it has been a low-profile issue since the conclusion of the MOSS talks -- guarantees that Japanese housing will remain an important subject for American and Japanese trade experts. Three-quarters of all lumber in Japan is used in housing construction. Similarly, many new Japanese houses still are made of wood. While other materials have made inroads, 41.4 percent of all the units constructed in Japan in 1988 were wooden, although this figure was down from 69.8 percent in 1970.

The share of imported wood products in construction has fluctuated from year to year, with no clear trend. As a result of more housing starts, less wood used per unit and constant import shares, import volumes have remained nearly steady. In fact, Japan actually imported more cubic feet of wood products in 1973 than it did in 1987, even though 1987 purchases represented a seven-year high.

The United States is one of the leading suppliers of logs and lumber to Japan. In 1988 purchases from this country added up to about $2.5 billion out of total imports of $7.1 billion, according to Ministry of Finance figures. Considering that the 1988 bilateral deficit based on Japanese statistics was $47.6 billion, relatively small variations in wood imports from the United States can have a measurable effect on the structure of trade.

A major U.S. complaint is that Japan imports primarily logs rather than lumber and other value-added products like plywood. According to U.S. data summarized by the National Forest Products Association which put Japan-bound shipments in 1988 at $2.2 billion, only 59.5 percent or $1.3 billion consisted of logs. Another 25.6 percent was lumber, primarily rough cut, and 11.3 percent was wood chips. Only $23.6 million, or 1.1 percent, were panel products, including plywood. (The remaining 2.5 percent were miscellaneous products.) The United States argues that tariffs as high as 20 percent on lumber and other

wood products and no duties on logs create high levels of effective protection for Japanese producers.*

In response to these complaints Tokyo points out that imports of logs and lumber were up in both 1987 and 1988. It also argues that the high tariffs on value-added products are directed toward Asian suppliers, especially Indonesia, which Japan believes is providing special export assistance to wood producers. In fact, Japanese wood product suppliers have asked the government to complain about Indonesian practices before the General Agreement on Tariffs and Trade, but Tokyo so far has not taken this step.

Beyond tariff contentions, Washington also argues that Japanese building codes and product standards make life difficult for U.S. suppliers. For example, building codes discourage the use of wood on Japanese home exteriors, with the result that, according to the U.S. government, wood use -- and U.S. imports -- are discouraged. However, Tokyo also has taken special measures recently to encourage the use of wood in Japanese homes. Other problems cited by Washington are that product standards emphasize appearance rather than structural performance or that required tests fail to adequately measure the proper characteristics.

Similar complaints, of course, have been made concerning other Japanese industries; the Super 301 procedure is seen widely as an effort to use wood products to establish a precedent in addition to further opening up a multi-billion-dollar market. Earlier sectoral negotiations did result in increased access for American wood exporters. As part of the MOSS talks, Tokyo agreed to revise some building codes, develop product standards for certain products and reduce tariffs on a number of wood products by an average of 30 percent. Obviously, Washington now feels these measures did not go far enough.

In addition to the prospect of further talks on residential construction materials, housing figures in another recently announced series of trade discussions between Washington and Tokyo. Immediately prior to the Paris summit conference of the seven leading industrial democracies this summer, Prime Minister Sosuke Uno and President Bush announced a new series of talks aimed at identifying structural impediments to trade (see JEI Report No. 28B, July 21, 1989). The talks, set to begin in September, with an interim assessment due by next spring, are expected to take up land-use policies in Japan, among other topics.

These talks are expected to affect housing through its connection with land-use policy. One widely cited figure is that 7 percent of the land in Tokyo is used for farming. Of course, an additional 7 percent of Tokyo's land easily could be devoted to parks and other open space and still have those amenities at a lower level than in comparable American cities. But Washington is not asking for more parks. It seems to be thinking that if additional land were available for housing, there would be more houses -- and bigger ones, more like American ones -- creating a bigger demand for American products.

Land-use policies, which keep potential land for housing off the market, work mainly to keep the price of land high, not to raise the rate of increase.

*For details, see U.S. Department of Commerce, The Japanese Solid Wood Products Market (Washington: 1989).

In other words, changes in land-use policies would at most create a temporary, one-shot drop in land prices and a similar increase in housing starts.

However questionable the arguments of its number-one trade partner, Tokyo has to listen. In July Nihon Keizai Shimbun, the Japanese economic daily, reported that Japan is considering removing the tax advantages that lead to continued farming in urban areas and taxing the land as if it were residential.

Conclusion

In addition to possibly exaggerating the effects of land-use policies, Washington may be underestimating the differences between the United States and Japan in the pattern of demand for housing space. Japanese households use their dwellings very differently than American ones, with consequences for how the home is likely to be built and furnished, how the rooms are used, soundproofing and many other characteristics. Since, fundamentally, Japanese homes are smaller than those in this country, these arguments suggest that the market for American-style home furnishings and building materials is likely to be limited. At the same time, Japanese households may have a hard time finding room for some bulky new products in which Japanese firms currently have the lead, such as high-definition television.

Furthermore, Japanese individuals, like Americans, may regard their home as one of the last bastions of tradition. They have paid extra money and endured discomfort in their homes for decades, perhaps in part so they may continue to enjoy the aesthetic qualities of Japanese houses. With greater affluence than ever, they may feel they can afford both comfort and a Japanese-style home. Indeed, some affluent young Japanese have used their new-found wealth to build large, traditional-style homes they could not have afforded a few years ago.

Nonetheless, although a home may be an individual's castle, and just as private, Japanese housing patterns have become the subject of intense international scutiny. While Japanese homes have been converging slowly in size and design to American ones, the process is far from complete. American trade negotiators seem to want the process to accelerate. While they may succeed to a modest degree, cultural and geographical differences are likely to keep Japanese housing highly distinctive by international standards.

For further information, contact Douglas Ostrom.

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The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.